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Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 L-03 CEA-01 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04 TRSE-00

LAB-04 SIL-01 SAM-01 OMB-01 SS-15 NSC-05 H-02 XMB-02

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R 281400Z JUL 76
FM AMCONSUL FRANKFURT
TO SECSTATE WASHDC 4939
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS

LIMITED OFFICIALS FRANKFURT 5688

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: PROPOSED U.S. LEGISLATION ON CONTROL OF FOREIGN BANK OPERATIONS IN THE UNITED STATES

REF: FRANKFURT 5303

1. ON JULY 27, HELMUT HAEUSGER, MEMBER OF THE EXECUTIVE COMMITTEE OF THE DRESDNER BANK, RAISED AGAIN WITH DPO HIS CONCERN OVER THE EFFECT OF HR 13876 ON GERMAN BANK OPERATIONS IN THE U.S. MARKET. HAEUSGEN UNDERSTANDS THAT THE HOUSE OF REPRESENTATIVES MAY APPROVE HR 13876 BEFORE AUGUST RECESS AND THE SENATE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS WILL BEGIN HEARINGS IN EARLY SEPTEMBER. HE SEES REAL LIKELIHOOD U.S. LEGISLATION ON FOREIGN BANKS WILL BE
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ENACTED THIS SESSION.

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2. WHILE ACCEPTING GENERAL THRUST OF BILL, NAMELY TO PROVIDE FOR FEDERAL REGULATION OF FOREIGN BANKS AND U.S. BANKS EQUIVALENTLY, HAEUSGEN FEARS THAT CONSEQUENCES OF SECTION 8 ON NONBANKING ACTIVITIES OF FOREIGN BANKS HAVE NOT RECEIVED FULL CONSIDERAION. AS DRESDNER AND OTHER GERMAN BANKS UNDERSTAND SECION 8, THE PROHIBITION AGAINST DIRECT OR INDIRECT OWNERSHIP CONTROL OF ANY VOTING SHARES OF ANY NON-BANKING COMPANY OPERATION IN THE U.S. EFFECTIVELY EXTEND U.S. LEGISLATION OVERSEAS AND PREVENT GERMAN BANKS FROM ENGAGING IN GERMANY IN ACTIVITIES THAT ARE NOT ONLY PERMITTED UNDER GERMAN LAW BUT MAY EVEN OCCASIONALLY BE URGED BY THE GERMAN GOVERNMENT TO SUPPORT A GERMAN FIRM. (SEE PAR 4, REFTEL.) AS GERMAN BANKS COULD NOT LIVE WITH SUCH A CONFLICT IN LEGISLATION, THEY COULD BE FORCED TO WITHDRAW FROM THE U.S. MARKET. HAEUSGEN WAS CERTAIN THAT THIS RESULT IS NOT INTENDED, ALTHOUGH HE UNDERSTANDS THAT THE FEDERAL RESERVE BOARD RECENTLY SENT A LETTER TO THE HOUSE URGING PROMPT PASSAGE OF HR 18376.

3. HAEUSGEN SAID THAT IT SHOULD BE POSSIBLE TO DEVISE A SOLUTION TO SECTION 8 THAT WOULD PROTECT THE U.S. MARKET AND U.S. BANK CUSTOMERS WITHOUT HAVING AN EFFECT OUTSIDE THE UNITED STATES. IDEALLY, HE PREFERRED THE APPROACH TAKEN TO NONBANKING ACTIVITIES IN THE FEDERAL RESERVE PROPOSED LEGISLATION (S958), BUT HE WAS NOT SURE HOW MUCH SUPPORT SECTION 8 OF HR 13876 ENJOYS IN THE CONGRESS. IF THE S958 APPROACH WAS NOT FEASIBLE, HE THOUGHT IT WOULD BE POSSIBLE TO REDRAFT SECTION 8 SO THAT THE PROHIBITIONS ON OWNERSHIP OR CONTROL WOULD APPLY ONLY WITH RESPECT TO FIRMS INCORPORATED OR ESTABLISHED UNDER U.S. LAW.

4. HAEUSGEN CONCLUDED WITH THE HOPE THAT GERMAN COMMERCIAL BANKERS MIGHT BE PERMITTED TO MAKE THEIR VIEWS DIRECTLY KNOWN TO THE FEDERAL RESERVE BOARD, THE EXECUTIVE BRANCH, AND THE CONGRESS WHEN FURTHER HEARINGS ARE SCHEDULED. IN RESPONSE TO URGINGS BY THE GERMAN COMMERCIAL BANKS, THE GERMAN FEDERAL GOVERNMENT WILL BECOME MORE ACTIVE ON HR 13876, AND HE IS TOLD THAT STATE SECRETARY POHL, IN THE LIMITED OFFICIAL USE

GERMAN FINANCE MINISTRY, IS WRITING SENIOR U.S. GOVERNMENT OFFICIALS IN SUPPORT OF THE GERMAN BANKS. LEHMANN

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